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RUEHLB/AMEMBASSY BEIRUT PRIORITY 4137  
RUEHEG/AMEMBASSY CAIRO PRIORITY 2442  
RUEHDM/AMEMBASSY DAMASCUS PRIORITY 4894  
RUEHLO/AMEMBASSY LONDON PRIORITY 1751  
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RUEHRH/AMEMBASSY RIYADH PRIORITY 1137  
RUEHTU/AMEMBASSY TUNIS PRIORITY 5250  
RUCNDT/USMISSION USUN NEW YORK PRIORITY 7208  
RUEHJM/AMCONSUL JERUSALEM PRIORITY 0079  
RHMFISS/CDR USCENTCOM MACDILL AFB FL PRIORITY  
RHMFISS/COMSOCEUR VAIHINGEN GE PRIORITY  
RHMFIUU/COMSIXTHFLT PRIORITY

UNCLAS TEL AVIV 001531

STATE FOR NEA, NEA/IPA, NEA/PPD

WHITE HOUSE FOR PRESS OFFICE, SIT ROOM  
NSC FOR NEA STAFF

SECDEF WASHDC FOR USDP/ASD-PA/ASD-ISA  
HQ USAF FOR XXXX  
DA WASHDC FOR SASA  
JOINT STAFF WASHDC FOR PA  
CDR USCENTCOM MACDILL AFB FL FOR POLAD/USIA ADVISOR  
COMSOCEUR VAIHINGEN GE FOR PAO/POLAD  
COMSIXTHFLT FOR 019

JERUSALEM ALSO ICD  
LONDON ALSO FOR HKANONA AND POL  
PARIS ALSO FOR POL  
ROME FOR MFO

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SUBJECT: ISRAEL MEDIA REACTION

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SUBJECTS COVERED IN THIS REPORT:  
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Mideast

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Key stories in the media:  
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All media led with the "return home" from Lebanon of the two abducted IDF soldiers after two years and four days in captivity. Yesterday, the Israeli cabinet voted 22-3 to proceed with the prisoner exchange. The electronic media reported that this morning the caskets of Ehud Goldwasser and Eldad Regev were transferred at the border crossing of Rosh Hanikra. Major media quoted Mossad

Director Meir Dagan as saying that Hizbullah's report on MIA Ron Arad was deceptive and that it was only meant to clean Hizbullah and Iran of responsibility. Transportation Minister Shaul Mofaz was quoted as saying in an interview with The Jerusalem Post that Hizbullah leader Sheikh Hassan Nasrallah knows more about Arad than was written in the report.

Ha'aretz reported that in May police investigators asked PM Ehud Olmert about a \$75,000 loan from Joe Elmaleh, a wealthy Israeli who now lives in Vermont. The loan was never repaid. Yediot and The Jerusalem Post quoted New York Magazine as saying, based on audiotapes, that 15 to 20 years ago Morris Talansky made serious threats on businesspeople in America. The media reported that Olmert's defense lawyers would try to undermine Talansky's credibility during his cross-examination tomorrow.

Ha'aretz reported that Hamas representatives postponed negotiations with Israel yesterday over Gilad Shalit. They were expected to begin this week in Cairo. Israel believes Hamas is trying to force Egypt to open the Rafah crossing before beginning talks. In another development, Ha'aretz cited AP quoting Nablus residents as saying that IDF troops arrested seven Hamas activists yesterday, including two municipal council members, in a widening crackdown on Hamas operations in the city.

Leading media quoted senior security officials as saying yesterday that Sinai-based gangs have immediate plans to kidnap Israelis and transfer them to terrorist organizations. The Israeli National Security Council's Counter Terrorism Bureau reissued its warning advisory for Sinai.

Israel Radio reported that today in Washington the Palestinian negotiating team will meet with Secretary of State Condoleezza Rice.

Various media reported that Iran warned Syria against making peace with Israel.

The Jerusalem Post and Israel Hayom reported that it was Defense Minister Ehud Barak who warned Tony Blair against visiting Gaza.

Ha'aretz and The Jerusalem Post reported that yesterday a PA security court in Jenin sentenced two Palestinians to death for "collaboration with the Israeli enemy."

Ha'aretz reported that the current drought is creating tension between Israel and Jordan along both banks of the Jordan River. The Jerusalem Post reported that Mekorot, the government water supply company that provides 80 percent of Israel's water, is hoping to solve Jerusalem's water shortage by building a fifth pipeline to the city.

The Jerusalem Post reported that National Infrastructure Minister Benjamin Ben-Eliezer will propose at the next cabinet meeting earmarking 3.5 billion shekels (around \$1.06 billion) toward reinforcing buildings against a major earthquake along the Dead Sea fault, deemed inevitable by many experts.

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Mideast:  
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Summary:  
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Senior Middle East affairs analyst Zvi Bar'el wrote on page one of the independent, left-leaning Ha'aretz: "Hizbullah has been touting the prisoner exchange deal with Israel as confirmation that the Shi'ite militant group ultimately defeated Israel in the Second Lebanon War, but the swap is at least as much of a Hizbullah victory within Lebanon."  
Ha'aretz editorialized: "We must act to free [Gilad] Shalit immediately. The ongoing war on terror must not be fought on his back."

Arab affairs correspondent Jacky Hoogie wrote in the popular, pluralist Maariv: "Israel should learn the lesson carefully and make use of it: From the day [Hizbullah] was founded in 1982, all the military confrontations with it only strengthened it."

Uri Elitzur, who was director of former prime minister Benjamin Netanyahu's bureau, wrote in the editorial of the nationalist, Orthodox Makor Rishon-Hatzofe: "[Israel] is the only [country] that surrendered and gave up the basic principle recognized all over the world: one doesn't start any debate over a price without clear evidence and guarantees by a neutral source that its people are alive."

The ultra-Orthodox Yated Ne'eman editorialized: "Today, with the conclusion of the prisoner swap, both sides are returning to the starting-point, as the murderous Shi'ite organization, supported by Syria and Iran, will try to improve its achievements in the next round."

The conservative, independent Jerusalem Post editorialized: "Today will bring difficult images of a Hizbullah-dominated Lebanon celebrating a slaughterer of innocents, and of an Israel mourning its fallen. That disparity of images reflects the yawning gulf of values between Israel and too many of its neighbors."

#### Block Quotes:

#### I. "A Hizbullah Victory"

Senior Middle East affairs analyst Zvi Bar'el wrote on page one of the independent, left-leaning Ha'aretz (7/16): "Hizbullah has been touting the prisoner exchange deal with Israel as confirmation that the Shi'ite militant group ultimately defeated Israel in the Second Lebanon War, but the swap is at least as much of a Hizbullah victory within Lebanon.... Hizbullah, which presents itself as a national resistance organization working for the interests of Lebanon, must still produce one more achievement: Israel's withdrawal from the Sheba Farms area. The Sheba Farms function as Hizbullah's justification for the claim that Israel did not fully withdraw from Lebanon, requiring Hizbullah to be armed so it can complete this mission too. Hizbullah is not opposed to negotiations aimed at giving Lebanon control over the Sheba Farms; it simply does not believe in the Lebanese government's ability to achieve anything through talks with Israel. The prisoner swap will serve Nasrallah as a banner to wave before the Lebanese government to prove the justness of Hizbullah's path."

#### II. "Gilad Shalit Now"

Ha'aretz editorialized (7/16): "The cabinet's approval of the prisoner swap with Hizbullah, despite the 'blatantly unsatisfactory' report the organization delivered on the fate of Ron Arad, requires the cabinet to now act urgently to free Gilad Shalit.... We know for sure that one Israeli soldier, Gilad Shalit, is still alive, in the hands of Hamas. No one can imagine what he is going through in captivity or how much he has suffered since he was abducted two years ago.... Can those opposed to the swap assure the public that in another five or 10 years, Shalit's case will not be where [MIA Ron] Arad's case is today? Will we then demand that Hamas, too, supply 'only' a report on Shalit's fate? Will anyone remember then that there was a real chance to release him in exchange for a few hundred prisoners? We must act to free Shalit immediately. The ongoing war on terror must not be fought on his back."

#### III. "Nasrallah's Coupon"

Arab affairs correspondent Jacky Hoogie wrote in the popular, pluralist Maariv (7/16): "We should make no mistake: The sense of victory that will arise from [Hizbullah's celebrations] is not a lie. It is true that in order to reach this deal, Hizbullah had to sacrifice 250 of its members, paid with the destruction of large parts of Lebanon and lost full control over southern Lebanon. The deal is a limited achievement, for which a disproportionate price

was paid. But in terms of a battle over consciousness, Nasrallah will clip the coupon he wanted today, and will add another victory to his list. The Hizbullah leader will entrench his image as the only Arab leader who fought against Israel and defeated it.... It is true that not everyone in Lebanon shares in this celebration.... [Hizbullah's rivals] despise the path of violence chosen by Hizbullah, and fear the influence that it gives Syria and Iran in their homeland. In their heart of hearts, they would like to make peace with Israel. They are not a minority in Lebanon, they are at least half the population. They are adherents of the diplomatic path, but unfortunately they are politically weak, and they are not the ones who have shown results on the ground.... Israel should learn the lesson carefully and make use of it: From the day the organization was founded in 1982, all the military confrontations with it only strengthened it. This was the case after the Lebanon War, and after Operation Accountability in 1993 and Operation Grapes of Wrath in 1996. After the Second Lebanon War as well, the organization did not collapse, it survived and demonstrated to everyone who is the boss in Lebanon. As an organization that fights for its life every day anew, this prisoner exchange deal arrived just in time for Nasrallah."

#### IV. "A Grave Failure of Principles"

Uri Elitzur, who was director of former prime minister Benjamin Netanyahu's bureau, wrote in the editorial of the nationalist, Orthodox Makor Rishon-Hatzofe (7/16): "The prisoner swap that is taking place between Israel and Hizbullah today will be recorded in history as one of Israel's blatant failures and a purulent symptom of the leadership crisis it is going through.... We haven't invented the wheel. Israel isn't the first country holding such negotiations with an enemy; neither is it the only one that was forced to haggle with a savage, cruel enemy that is not a state but a terrorist organization. However, [Israel] is the only one that surrendered and gave up the basic principle recognized all over the world: one doesn't start any debate over a price without clear evidence and guarantees by a neutral source that its people are alive."

#### IV. "Back to the Starting-Point"

The ultra-Orthodox Yated Ne'eman editorialized (7/16): "As the current round of fighting between Israel and Hizbullah is coming to an end, both sides will find a new starting-point. Hizbullah will try to heat up the northern front and provoke Israel, as it did before the war. It is still owed an unpaid 'debt,' in the form of avenging the elimination of its operations officer, Imad Mughniyah. It might try to act abroad or again kidnap soldiers. Israel will think twice about the way to respond to Hizbullah's provocations; it is doubtful whether such a hasty decision to go to war will be made. Today, with the conclusion of the prisoner swap, both sides are returning to the starting-point, as the murderous Shi'ite organization, supported by Syria and Iran, will try to improve its achievements in the next round."

#### VI. "A Disparity of Images"

The conservative, independent Jerusalem Post editorialized (7/16): "Israelis are steeling themselves today for the painful images that will doubtless accompany the anticipated exchange of unrepentant terrorist Samir Kuntar for IDF reserves Eldad Regev and Ehud Goldwasser.... There is no surefire way to calibrate the right combination of image and substance that might pave the way to Arab-Israel peace.... Plainly, though, Assad avoiding Olmert, Assad opting not to replicate Sadat by coming to the podium of the Knesset, tells us much about his intentions. Today will bring difficult images of a Hizbullah-dominated Lebanon celebrating a slaughterer of innocents, and of an Israel mourning its fallen. That disparity of images reflects the yawning gulf of values between Israel and too many of its neighbors."

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